Is An HSA Appropriate For You?

Paid investment advertisement by Scott Moore, President of Moore's Wealth Management

I taught a class last week to a group of preretirees. At the class, I spoke for a bit on the cost of healthcare, and different ways to offset those costs with effective retirement planning. As I talked, I noticed a hand rise hesitantly from the back of the room. I don't usually get a lot of questions from the back. (As a guy who spent most of his school years hiding out in the back row of classes, I know the mindset of the people back there.)

The hand belonged to a man in his mid-50s named Gary, who was attending the class with his wife, Jill. He asked how I feel about HSAs. He mentioned that he tries to read the Wall Street Journal each day and had recently seen a headline about the tax benefits of HSAs. As someone who urges people every week to be vigilant and stay alert, I was excited that Gary was committed to educating himself on such an issue.

Gary's question prompted someone else in class to ask me to explain HSAs. So, I took a few minutes to do just that. I figured it would probably be a good topic to cover in this article as well.

As most of you know, HSA stands for Health Savings Account. Although this savings vehicle may seem very limited, as its main focus is on covering medical costs, the tax advantages associated with these accounts when they are used as intended are not something to overlook. In fact, the associated tax benefits make these vehicles effective retirement-saving strategies.

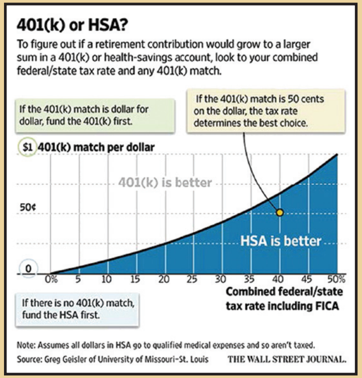
According to a 2015 analysis by Fidelity, a couple, both age 65 and retiring this year, can expect to spend an estimated $245,000 on health care throughout retirement; this figure is a whopping $25,000 more than last year. This is a huge expenditure that should not be an afterthought, but rather a forethought in your retirement planning strategy.

An HSA works in a similar manner as a traditional IRA or 401(k). You can fund this account with pre-tax money, and if you do it through payroll deductions, you can avoid income tax on the funds contributed as well as the nearly 8 percent FICA tax for Social Security and Medicare. The money grows tax-free, and (here's the kicker), if you use the money for medical expenses, you can even withdraw it tax-free. On the other hand, if you use funds from your 401(k) or IRA to cover that estimated $245,000, you are going to be paying ordinary income tax on every buck of it.

HSAs must be paired with qualified health plans and are offered by just under half of all employers. As of this year, a health plan must have a deductible of at least $1,300 for individuals and twice that for a family to be considered a qualified health plan. If that seems high to you, remember that the offsetting lower premiums can help a family contribute up to $6,750 a year to an HSA. Just as with the catch-up provisions on an IRA, those over 55 can save $1,000 more.

When we think of employer-offered plans, we are trained to funnel all of our money into the company-sponsored 401(k) to take full advantage of any and all of the company match. But for some workers, depending on their tax bracket, an HSA may be a more advantageous option.

An accounting professor from the University of Missouri, St. Louis, did the math to determine whether it is more advantageous to contribute to an HSA or an employersponsored retirement plan based on an individual's tax rate and his or her employee match. The following table shows the results of his study.



For an example, an employee with a combined tax rate above 20 percent maximizes wealth by contributing to an HSA before contributing to a 401(k) with a 25 percent employer match. It is even possible for a high-income individual, that contributing to an HSA before contributing to a 401(k) with a 75 percent employer match maximizes wealth.

The beauty of an HSA also compounds over time, literally. The money set aside that isn't used right away on medical bills will compound, tax-free, year after year, and can be used at any point in the future for qualified medical payments. It is also important to note that qualified payments include more than just the obvious doctor's visits and medical bills. HSAs can also be used to cover things such as dental and vision care costs, as well as Medicare premiums and even some long-term-care insurance premiums.

I told Gary and the class what I will now tell you. Whether or not an HSA is the right answer for you depends on your individual circumstances. I never look at anything as good or bad, only appropriate or not. The only wrong answer is to never ask the question in the first place. Nice job, Gary!

For answers to these questions, contact Scott Moore 770-535-5000.

In addition to being an Investment Advisor Representative, Scott is an Ed Slott Master Elite IRA Advisor

210 Washington St. NW, Suite # 106 • Gainesville, GA 30501 • 770-535-5000 • 12600 Deerfield Parkway, Suite # 100 • Alpharetta, Georgia 30004 • 678-566-3590